

“ICOs”) to purchase their records.<sup>52</sup> The vast majority of the records that SBC California acquires from other incumbents come from Verizon (*i.e.*, Verizon volumes dominate the Verizon + ICO total); hence, the unreasonably high price (\$0.04) that SBC California purportedly pays Verizon dominates the weighted-average cost that SBC California applies to all records, including its own retail records.<sup>53</sup>

60. There is no basis whatsoever for assuming that it would cost SBC California nearly \$0.04 per record to “acquire” its own directory assistance listings. Indeed, as the Commission has never yet established a price for SBC California’s DALIS product that is based on a detailed examination of forward-looking economic costs, it is nearly humorous that SBC California assumes the existing prices that Verizon charges would be a useful proxy.
61. Moreover, SBC California trips all over itself in attempting to imagine its retail-operation-free existence. SBC California first asserts that it is obligated by Commission order to maintain statewide listing data.<sup>54</sup> Thus, some of SBC California’s positions in this docket rely on its maintaining comprehensive listings data – the opposite of its “TELRIC” study assumption. Next, SBC California’s assumption that it would be wholesale-only with no listings data of its own implies that all listings records for the current SBC California local exchange

---

<sup>52</sup> Deposition, 1/24/03, Pearsons, Tr. 18-19.

<sup>53</sup> *Id.*

<sup>54</sup> SBC California Response to WorldCom and MetroOne’s Sixth Set of Data Requests, Request 1(G), attached hereto as part of Exhibit TLM-2.

service territory would necessarily come from third-parties such as competitive local exchange providers. But, competitors currently give SBC California listings data at no charge, which is again inconsistent with SBC California's assumption that it would pay retail rates for those listings.

62. Most important, these costs simply do not exist and will not exist in any reasonably foreseeable future. *I.e.*, SBC California does not and will not have to pay some unaffiliated company for listings. For its own service area, SBC California has those listings or gets those listings from competitors at no charge.
63. As for listings for end users in Verizon or other ILEC areas, both SBC California and any other potential DALIS customer can purchase the listings directly from those other entities at the same presumed "retail" price. Even SBC California admits that it "might not make sense" for anyone to ever purchase those listings from the wholesale company SBC California's analysis invents, rather than simply obtain the listings directly from the relevant retail service providers.<sup>55</sup> As I explain below, the Commission should not require DALIS customers to acquire non-SBC listings from SBC California, but should instead make the acquisition of such listings an optional rate element.

**b) SBC California's "Data Storage" Capital Cost Estimate Is Flawed.**

64. SBC California's reported capital cost for "data storage" assumes that SBC California would purchase several mid-range computers that it treats as being

---

<sup>55</sup> Deposition, 1/24/03, Pearsons, Tr. 158-159.

devoted entirely to DALIS.<sup>56</sup> Indeed, the data storage portion of SBC California's "TELRIC" study apparently assumes not only a "wholesale-only" operation, without any retail analog, but also a "DALIS-only" operation that cannot share costs with any other wholesale operation.<sup>57</sup> In other words, in the data storage portion of its study, SBC California has assumed away not only the scale and scope economies associated with being both a retail and a wholesale company, but also the scale and scope economies associated with offering multiple wholesale products. The assumption underlying this aspect of SBC California's study is inconsistent with the overall guidance of its cost study expert, who stated that the underlying assumption of company's "TELRIC" study is "not a hypothetical company that only sells DALIS. It is Pacific Bell as a wholesale only business. It's not that we are going to just sell DALIS. We will still have unbundled network elements, things like that."<sup>58</sup>

65. The "DALIS-only" assumption underlying the data storage portion of SBC California's "TELRIC" study cannot be reconciled with the FCC's own description of TELRIC or even the language from the federal district court order that SBC California has cited as its basis for the wholesale-only construct. The federal district court opinion addresses the treatment of shared and common costs in a TELRIC study. As I explained above, the FCC's *Local Competition First*

---

<sup>56</sup> Deposition, 1/24/03, Smith, Tr. 54-55.

<sup>57</sup> Deposition, 1/24/03, Smith, Tr. 56 ("The assumption I was using was that we were a DALIS only company....").

<sup>58</sup> Deposition, 1/24/03, Pearsons, Tr. 138.

*Report and Order* defines “joint” (or “shared”) and common costs as costs attributable to multiple products and services. Therefore, it is clear that neither the federal district court nor the FCC requires a TELRIC study to employ a hypothetical construct that assumes away all of the economies of scale and scope that SBC California and other incumbents achieve by virtue of the wide array of products and services that they offer.

66. The assumption of a “DALIS-only” company virtually guarantees that the unit cost estimates for data storage will exceed the costs that competitors can achieve themselves if they make multiple uses of computing capacity. In this respect, SBC California’s “TELRIC” study produces costs that almost certainly exceed the prices that are sustainable for DALIS even in today’s “market” for directory listings, which I have already explained is far from competitive. The only conclusion that one can draw is that SBC California has no desire to sell the DALIS product to Joint Commenters or any other potential buyers.
67. SBC California admits that the mid-range computers assumed in its “TELRIC” study would not necessarily be the least-cost choice for a company that uses computers for tasks other than processing DALIS data.<sup>59</sup> Thus, the efficient unit cost for a wholesale-only company could be lower than the cost shown in SBC California’s “TELRIC” study.
68. SBC California also admits that even the mid-range computers included in its “TELRIC” cost study would not be occupied full-time with DALIS processing

---

<sup>59</sup> *Id.*, Tr. 55-56.

and could thus also support other operations.<sup>60</sup> Thus, an efficient wholesale-only company would seek to use the spare capacity of the computers assumed in its data storage "TELRIC" analysis.

69. If, as SBC California supposedly assumes in its "TELRIC" study, it maintained all of its current operations except retail, the company would necessarily still have mainframe computers doing many other tasks, such as maintaining the loop inventory. SBC California has acknowledged that it cannot even identify all of the other business functions the mainframe computer that processes its DALIS product in the "real world" also accommodates because "there are several thousand tasks that run on Pacific Bell's mainframe systems daily."<sup>61</sup> There is no basis whatsoever for assuming that the wholesale-only SBC California would not have similarly well-occupied computer systems. Therefore, assigning 100% of the cost of that capacity to DALIS would be improper, even given SBC California's wholesale-only construct.
70. WorldCom witness Mr. Knapp provides additional discussion concerning why SBC California's data storage assumptions, such as its estimate of the computing resources required to process this volume of records and the cost of those systems, are overstated.

---

<sup>60</sup> Deposition, 1/24/03, Smith, Tr. 55.

<sup>61</sup> SBC California's Response to WorldCom's 3rd Set of Data Requests, No. 22, attached hereto as part of Exhibit TLM-2.

71. For all of the reasons cited above and in Mr. Knapp's accompanying declaration, I recommend that the Commission exclude all of the costs identified in the data storage section of SBC California's DALIS cost study.

c) **SBC California's Labor Cost for "Data Storage" and "Database Maintenance/Update" Cost Estimate Is Flawed.**

72. The "data storage" and "database maintenance/update" portions of SBC California's study assume that SBC California would require roughly two dozen full-time employees just to manage a wholesale-only DALIS product. This assumption far exceeds SBC California's actual DALIS workforce, which strongly suggests that SBC California cannot possibly have assumed an efficient operation as a forward-looking cost analysis requires.
73. Indeed, the notion that a wholesale-only company would need two-dozen employees to manage *computer processing and updating* of about \*\*\* BEGIN PROPRIETARY [REDACTED]<sup>62</sup> END PROPRIETARY \*\*\* records *per month* for each of a handful of clients defies common sense. As WorldCom witness Mr. Caputo points out, WorldCom requires about half that number of employees to manage a *nationwide* directory assistance database with \*\*\* BEGIN WORLDCOM PROPRIETARY [REDACTED] END WORLDCOM PROPRIETARY \*\*\* million total listings.<sup>63</sup>

---

<sup>62</sup> SBC California study, page 8, cell F19.

<sup>63</sup> Caputo Declaration, ¶ 18.

74. Once again, these inflated assumptions stem from SBC California's improper hypothetical construct of a wholesale-only, *DALIS-only* company. Thus, for example, the "data storage" portion of the study assigns to DALIS the full cost for "on call developers to implement changes and time resolution issues."<sup>64</sup> The very description of these individuals as being "on call" suggests that they would not be fully occupied with the day-to-day provision of the DALIS product. In fact, based on the description of SBC California's subject matter expert in her deposition testimony,<sup>65</sup> it seems likely that some of the personnel would be much like the lonely Maytag repairman in the television commercials, waiting with little hope for the phone to ring and require his services.
75. Similarly, the "database maintenance/update" portion of the study assumes away SBC California's retail operations. The labor included in this portion of the study replicates the personnel who currently support SBC California's retail directory assistance operation.<sup>66</sup> That is, SBC California allegedly requires the same number of database maintenance/update personnel for a retail-only operation, a combined retail and wholesale operation, or a wholesale-only operation.
76. As I noted above, SBC California recovers the cost of its retail directory assistance operation from retail customers. Therefore, assignment of 100% of the same cost to a hypothetical "TELRIC" DALIS product constitutes impermissible double-recovery of costs.

---

<sup>64</sup> Deposition, 1/24/03, Smith, Tr. 60.

<sup>65</sup> Deposition, 1/24/03, Smith, Tr. 58-69.

<sup>66</sup> Deposition, 1/24/03, Jameson, Tr. 110.

77. WorldCom witnesses Mr. Caputo and Mr. Knapp provide additional explanation regarding why SBC California's data storage and database maintenance/update labor assumptions are unreasonable.
78. For all of the reasons I have described above, and the additional reasons identified in Mr. Caputo's and Mr. Knapp's accompanying declarations, I recommend that the Commission exclude SBC California's data storage and database maintenance/update labor costs entirely from the approved cost-based price for DALIS.

**d) SBC California Significantly Inflates Its Estimate Of The Forward-Looking Economic Cost It Will Incur To Provide DALIS**

79. As I noted above, SBC California's estimate of its own forward-looking economic cost to provide DALIS (*i.e.*, its "TSLRIC" study) consists primarily of costs for a product support staff, "database maintenance" costs for time spent correcting listing errors identified by DALIS customers, and the computer processing time needed to extract update records. SBC California has inflated each of these components.

*(1) SBC California's Estimate Of The Cost Of Computer Processing Time Is Substantially Overstated.*

80. SBC California's study values the computer time needed to process DALIS records at \$500 per hour of computer Central Processor Usage ("CPU").<sup>67</sup> SBC

---

<sup>67</sup> See, *e.g.*, SBC California Response to WorldCom's 3rd Set of Data Requests. No. 6, attached hereto as part of Exhibit TLM-2.



California asserts that “[t]he \$500 per hour CPU rate was established in the original AT&T Bill Collection study in the late 1980s.”<sup>68</sup> In other words, SBC California is relying on an input *for the cost of computers* from the 1980s.<sup>69</sup> It is common knowledge that the cost for computers, particularly in terms of cost as a function of time to process a given amount of data, has plunged since the 1980s. SBC California’s decision to use nearly two-decades-old computer costs in its DALIS cost study is so unreasonable as to indicate bad faith.

81. As WorldCom witness Mr. Caputo indicates, WorldCom can obtain comparable mainframe CPU processing time from its vendors for less than \*\*\* **BEGIN**  
**WORLD COM PROPRIETARY \$** REDACTED **END PROPRIETARY** \*\*\* per hour. WorldCom’s vendors must also recover their own supporting facility costs such as power and building space to stay in business; therefore, one can reasonably presume that the prices WorldCom pays its vendors for computer processing time include the same kinds of loadings that SBC California considers. Thus, the price that WorldCom pays its vendors should capture the drop in the costs of current computer equipment relative to SBC California’s \$500 figure from the 1980s.
82. I recommend replacing the \$500 per-CPU-hour assumption in SBC California’s DALIS study with \$100. This figure is conservative, particularly for a forward-looking study, as computing costs seem to continue to decline. This single correction reduces SBC California’s reported recurring cost to provide DALIS

---

<sup>68</sup> *Id.*

from \*\*\* BEGIN PROPRIETARY \$ [REDACTED] END PROPRIETARY  
\*\*\*, or about 18 percent, and its reported nonrecurring cost from \*\*\* BEGIN  
PROPRIETARY \$ [REDACTED] END PROPRIETARY \*\*\*.

(2) *SBC California underestimates the number of  
DALIS records per month.*

83. SBC California proffers inconsistent estimates of the number of DALIS records it provides each month. Page 4 of its "TSLRIC" study (the study of costs for SBC California as it is currently configured) assumes that SBC California provides about 514,000 DALIS records per month to each DALIS customer.<sup>70</sup> In contrast, Tab 7 of its "TELRIC" study (the study of the hypothetical wholesale-only company) assumes that SBC California requires about 1.3 million updated records per month to keep the DALIS product current.
84. SBC California provided its "explanation" for this discrepancy in Record Request Response 7, which is attached hereto as part of Exhibit TLM-5. In that response, the company asserts that it developed the 3.6 million total DALIS update records per month based on the average total monthly listings provided to the seven "current" DALIS customers (excluding one customer that was no longer obtaining DALIS from SBC California at the time of the cost study) during three of the ten

---

<sup>69</sup> SBC California's total cost for CPU usage is for the computer plus relevant supporting costs such as power and floor space. SBC California Updated Response to WorldCom's 1st Set of Data Requests, No. 10, November 15, 2002, attached hereto as part of Exhibit TLM-2.

<sup>70</sup> Deposition, 1/24/03, Tr. 159-160. The 514,000 represents the purported average total 3.6 million update records that SBC California provides to DALIS customers divided by 7 customers.

months<sup>71</sup> preceding the study date. The months included were July, September and October 2001. SBC California excluded the other seven months' data because the months were purportedly "atypical" and may have represented initial loadings for the customers in question. (This presumption is questionable because all seven customers included apparently obtained listings in each of the ten months reviewed, which begin with March 2001, four months *prior* to the first month included in the SBC California sample average.)

85. Nothing in SBC California's response to Record Request 7 explains why the seven "current" DALIS customers allegedly receive, on average, less than half of the total number of DALIS listings necessary to keep the listings database up-to-date. If there is indeed such a large disparity, one must question whether the SBC California is providing competitors with a database of comparable accuracy and completeness to the company's own internal database.
86. The true explanation, however, may be that SBC California actually provides far more update listings than its sample average for non-randomly-selected months shows. WorldCom witness Mr. Knapp explains in his concurrently filed declaration that, in 2002, WorldCom processed an average of 1.3 million daily update listings each month from SBC California (a figure that excludes listings obtained from SBC California for retail customers of other incumbents).<sup>72</sup> This figure corresponds closely to the number that SBC California's subject matter

---

<sup>71</sup> Although the record request states that the cost study considered the last six-months' listing data, it also identifies the months examined as being March through December 2001, which represents ten months, not six.

expert noted as being necessary to maintain an up-to-date listings database, but far exceeds the average number of DALIS listings per customer per month that SBC California used to develop its recurring cost per listing.

87. The apparent discrepancy is important because SBC California divides an estimate of its total monthly recurring costs for DALIS by the estimated total monthly update listings provided to DALIS customers to arrive at the recurring cost per listing.<sup>73</sup> For any given level of total monthly recurring costs, the recurring cost per listing decreases as the number of listings increases. (In mathematical terms, the recurring cost per listing is inversely correlated with the number of listings.) If SBC California actually provides far more updated listings to its DALIS customers than it assumes in its recurring cost study, then the company will over-recover its estimated total recurring costs.
88. I recommend that the Commission calculate the recurring cost per-listing for DALIS using an average 1.3 million update listings per month per DALIS customer. This approach corresponds to the estimate of SBC California's own subject matter expert and to WorldCom's recent experience. My restatement of SBC California's recurring costs reflects this assumption.
89. If, however, the Commission accepts SBC California's inexplicably lower estimate of the average DALIS listing updates provided per month to "current" customers, then the Commission should only allow SBC California to charge DALIS customers for the number of listings assumed in calculating the recurring

---

<sup>72</sup> Knapp Declaration, ¶ 6.

cost per listing. This approach would prevent over-recovery of SBC California's claimed recurring costs.

(3) *SBC California assumes numerous, unsupportable layers of manual employee work effort.*

90. In my discussion above of the labor costs included in SBC California's "TELRIC" study, I noted that the company assumes excessive and inefficient work times. Similar flaws exist in the company's "TSLRIC" study.
91. For example, the \*\*\* **BEGIN PROPRIETARY** ■ **END PROPRIETARY** \*\*\* hours per month of DALIS customer support time identified in SBC California's recurring cost study seems much higher than could possibly be required to support seven DALIS customers if the experience cited by WorldCom witness Mr. Knapp is at all typical. Mr. Knapp identifies only four instances in all of 2002 during which he contacted SBC California customer service representatives concerning issues with DALIS and estimates that the total time spent during those contacts about 8 hours.<sup>74</sup> That experience, multiplied by seven DALIS customers, would yield a total of 56 hours *annually*, or approximately 4.7 hours per month of customer support time.
92. I do not doubt that SBC California personnel spent some additional time researching the issues that Mr. Knapp brought to their attention; however, the SBC California e-mails and issue logs provided in response to deposition record

---

<sup>73</sup> SBC California DALIS cost study, Tab 3, line 28.

<sup>74</sup> Knapp Declaration, ¶ 5.

requests do not seem to come close to filling the gap between WorldCom's experience and SBC California's estimated support times.<sup>75</sup>

93. Moreover, some of the "customer support" activities consist of researching apparent database errors that DALIS customers bring to SBC California's attention.<sup>76</sup> These error-checking activities actually benefit SBC California's retail operations as much as they benefit the DALIS customers' operations. SBC California should not be charging DALIS customers assisting SBC California's retail operation in researching errors in the listings database that SBC California must maintain accurately for its own retail customers. Therefore, this component of the SBC California study should be eliminated.
94. Beyond these record request responses elicited through Joint Commenters' deposition and a general description of the tasks performed by the customer support personnel, SBC California provided few specifics to document the validity of its assumptions for customer support labor.<sup>77</sup> For example, SBC California's subject matter expert was unable to indicate the average monthly number of contacts between customer support personnel and DALIS customers were reflected in the cost study.<sup>78</sup> This lack of specificity makes it very difficult

---

<sup>75</sup> SBC California Responses to Record Requests 2 and 5, Attachments RR-2 and RR-5 respectively, which are attached hereto as part of Exhibit TLM-5.

<sup>76</sup> *See, for example*, Exhibit TLM-5, SBC California Response to Record Request 2, Attachment RR-2, pp. PBDAL000056-000057.

<sup>77</sup> Deposition, 1/24/03, Cashin, Tr. 83-100, summarizes the level of documentation available for SBC California's study assumptions in this area.

<sup>78</sup> Deposition, 1/24/03, Cashin, Tr. 98-99.

for parties or the Commission to verify or contest the reasonableness of SBC California's study assumptions.

95. Given the paucity of documentation and the apparently large gap between the level of customer support activity cited by Mr. Knapp (and revealed in SBC's own DALIS issues logs) versus the cost study's assumptions, I recommend that the Commission make some downward adjustment to SBC California's estimated labor costs for customer support. My adjustments to SBC California's cost study reflect a highly conservative 25% disallowance of monthly recurring customer support costs, far less than would be implied by Mr. Knapp's testimony.

*(4) The cost for manually processing physical tapes should be recovered through a rate element that applies only to DALIS customers that require such tapes*

96. SBC California's DALIS cost study includes the cost of manually processing physical tapes for each and every DALIS customer, yet DALIS customers can also obtain the data electronically and many choose to do so. SBC California's decision to study DALIS costs as if every customer receives physical tapes underscores how little attention SBC California devoted to making its DALIS cost study conform to the way that the product is actually delivered.
97. Customers that choose to incur the costs necessary to obtain DALIS data electronically should not have to pay for tape-preparation costs that SBC California will not incur on their behalf. Hence, the Commission should require SBC California to eliminate the tape preparation costs from its basic per-listing

charge for DALIS. If SBC California continues to offer physical tapes as an alternative delivery mechanism for DALIS data, then it should reflect the cost of preparing those tapes in a separate, optional rate element. Only those customers that choose the tape delivery option should pay the corresponding rate element.

(5) *Purchase of non-SBC listings from SBC California should be optional.*

98. The rationale for requiring SBC California to provide DALIS at cost-based, nondiscriminatory prices is to eliminate the unfair advantage that SBC California would otherwise possess by virtue of its former legal monopoly and its continued dominance in retail local exchange markets in its California service territory. That rationale has no force when it comes to listings that SBC California acquires (apparently, at rather high prices) from other incumbents and enters those listings into its own database.
99. DALIS customers such as Joint Commenters can, and do, obtain directory assistance listings directly from incumbents other than SBC California. Requiring them to pay SBC California for the administrative effort that the company makes, on behalf of its own retail operations, to acquire other incumbents' listings would introduce an additional, needless layer of costs into the operations of DALIS customers. Not only would they have to compensate Verizon and independent phone companies indirectly for the cost of their listings (by paying a per-listing charge that reflects the cost to SBC California of obtaining those listings from the other incumbents), they would also have to pay SBC California for whatever cost



it incurs to store and process that information. Then, they will incur the same kinds of costs themselves to store and process the non-SBC information obtained from SBC California.

100. Should a DALIS customer opt to obtain non-SBC listings from SBC California, it would seem reasonable for that customer to pay a per-listing charge for those optional listings based on the charge in SBC California's so-called "TELRIC" study. Recall that SBC California's "TELRIC" per-listing cost is purportedly based on a weighted-average of the price it pays to Verizon and ICOs to obtain their listings. These are precisely the listings that DALIS customers would be obtaining via the optional non-SBC listing rate element; hence, this is the best cost information in the record on which to base an optional charge for those listings.

*(6) Adoption of each of the adjustments proposed herein would result in a conservatively high cost for DALIS.*

101. The adjustments described above correct, at least in part, several significant errors in SBC California's DALIS cost study. But, even after making all of these adjustments, the study includes assumptions that likely overstate the true forward-looking cost of the DALIS product.
102. For example, SBC California appears to have used "loaded" labor rates that add allowances for supervisory time.<sup>79</sup> Its deponents did not know whether this loading duplicated the supervisory time explicitly included in the DALIS study,

but acknowledged there was at least a potential for double-counting.<sup>80</sup> Similarly, SBC California's deponents acknowledged that the labor rates may include loadings for nonproductive work time (such as break time) on top of the actual wage rates paid to its employees that are already counted in the total number of hours assumed to be worked per employee.<sup>81</sup>

103. Given the murky state of the record, I have not attempted to make any adjustments for these and other possible cost overstatements attributable to the manner in which SBC California developed its labor costs. As-a result, even my "corrected" version of SBC California's cost study likely overstates efficient, forward-looking economic costs.

#### IV. CONCLUSION

104. For all of the reasons explained above and in the declarations of WorldCom witnesses Mr. Knapp and Mr. Caputo, I recommend that the Commission take the following steps:

- Reject SBC California's proposal for "market-based" pricing and instead adopt cost-based prices that reflect the forward-looking costs that an efficient company with SBC California's current scale and scope can expect to achieve for DALIS, plus a Commission-approved markup for shared and common costs;

---

<sup>79</sup> Deposition, 1/24/03, Tanner, Tr. 169.

<sup>80</sup> Deposition, 1/24/03, Pearsons, Tr. 169-170.

<sup>81</sup> Deposition, 1/24/03, Pearsons, Tr. 164-167; *see especially* Tr. 167.

- Reject entirely SBC California's purported "TELRIC" costs for data acquisition, data storage and database maintenance/update because DALIS customers do not cause SBC California to incur any of these costs and inclusion of such costs would be entirely inconsistent with a proper interpretation of the FCC's TELRIC methodology;
- Adjust SBC California's purported "TSLRIC" recurring and non-recurring costs to reflect better estimates of the forward-looking cost for computer processing and the length of time that such processing will take, the efficient amount of labor needed to support the DALIS product, the average number of DALIS update listings provided per month and the fraction of database maintenance costs directly attributable to DALIS customers; and
- Segregate the costs for preparing and delivering physical tapes into a separate rate element chargeable only to DALIS customers that order such tapes.
- Reject any requirement for DALIS customers to obtain non-SBC listings from SBC California and instead make such a service optional, at a price based on the per-listing cost calculated in SBC California's so-called "TELRIC" study.

105. This concludes my declaration.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct to the best of my knowledge.

Dated this 17th day of April, 2003 at Piedmont, California.

Terry L. Murray  
Terry L. Murray